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Rising deficit dampens White House's initiatives

By James Oliphant

WASHINGTON--A wave of bleak news about the stagnant economy promises to give opponents of President Obama's expansive domestic agenda more ammunition to argue that this is an inopportune time to enact overhauls of the nation's health-care and energy policies.

As part of its fiscal mid-year review, the Obama administration projected today that the United States will run a \$9-trillion deficit over the next decade--\$2 trillion more than it had estimated in February when its budget initially was outlined.

On the same day, the nonpartisan Congressional Budget Office reported that the federal budget deficit for fiscal 2009 will soar to \$1.6 trillion, which would represent 11.2 percent of the nation's Gross Domestic Product, the highest percentage since the end of World War II.

That number, however, was slightly lower than what officials originally predicted, citing less spending on the bailouts of financial institutions as the reason.

The culprit for bad projections is the economy, still mired in a recession, which has resulted in significantly lower tax revenues at the same time that federal spending has ramped up sharply. Administration officials, however, said they expected the economy to begin to grow more by the end of the year, with unemployment beginning to recede sometime next year. Still, the economy isn't projected to grow in a robust fashion until 2011.

Republicans and other critics of Obama's call for expanded health insurance for all Americans, as well his advocacy of a "cap-and-trade" program to limit greenhouse gas emissions, contend that those goals should be set aside in a time of limited economic growth.

Sen. John Thune, a Republican from South Dakota, called the deficit projections a "three-alarm fire warning" that should steer Congress away from a health-care plan which he contends would compound the deficit.

"The key for the Congress is to do no harm, to do nothing to make matters worse," said Thune, who said it was more important to focus on curbing the long-term cost of Medicare and slowing the growth of health-care expenses rather than expanding government entitlements.

Chris Edwards, an economist for the libertarian CATO Institute, said that the Obama administration should abandon its initiatives on health care and energy and "start doing things that are good for long-term economic growth. They have not had that focus in my view."

He said the administration has been focused on providing a quick jolt to the ailing economy, a "short-term



sugar high," citing the economic stimulus package and the "cash for clunkers" program.

A health-care overhaul and a cap-and-trade plan, Edwards said, "ultimately will create much larger costs."

But White House budget director Peter Orszag strongly pushed back against that notion today, saying the costs of the current health-care system were a drag on the economy. The administration maintained that any health-care overhaul would pay for itself and not contribute to the growing budget deficit.

"I know there are going to be some who say that this report proves that we can't afford health reform," Orszag said. "I think that has it backwards . . . The fiscal gap is precisely why we must enact well-designed and fiscally responsible health reform now, health reform, again, that is deficit-neutral over the next decade and reduces it thereafter. Given the long-term nature of that problem, we simply can't afford to wait."

Obama has pledged to cut the federal deficit in half by the end of his first term. He inherited a \$1.3 trillion budget annual deficit from his predecessor, former President George W. Bush.

Jim Kessler, vice president of policy for Third Way, which advocates centrist federal policies, said that he expects Republicans would try to leverage the bad economic news to imperil health-care legislation. During town hall meetings held by members of Congress throughout August, attendees often cited fear of rising federal spending as a leading cause of their concerns.

"No one's surprised the deficit numbers are huge," Kessler said. "It's a hangover from the Bush administration, the stimulus, the bad economy."

The Obama administration should "double down on the notion how [a health-care overhaul] is this is fiscally responsible and get ahead of it," Kessler said. "Make the economic argument--the fact that it's going to be paid for."

One key Republican, Sen. Charles Grassley of Iowa, sounded his most pessimistic note on the potential for passing a health-care bill this year. Grassley has been involved in extended negotiations with Democrats over a potentially bipartisan overhaul proposal. He said the White House's support of a government-backed "public option" that would make health insurance available to uninsured Americans would be a deal-breaker.

"I don't think it's going to be possible to work it out with the administration because they're all over the field -- all over the ball park," Grassley said today. "I do believe it's possible to reach an agreement. But I have to confess to you to be a little more cautious when I say that now, because I've been out here listening to my constituents."

Janet Hook of the Tribune Washington Bureau contributed to this report.

joliphant@tribune.com

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